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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

I.D. # 12577

ENERGY DIVISION **RESOLUTION G-3491**

December 5, 2013

R E S O L U T I O N

Resolution G-3491. Pacific Gas and Electric Company (PG&E), San Diego Gas and Electric Company (SDG&E), and Southern California Gas Company (SoCalGas) request approval of program year 2011 energy efficiency incentive awards, in compliance with Ordering Paragraph 8 of D.12-12-032.

PROPOSED OUTCOME: This Resolution approves the Tier 3 Advice Letters and incentive awards filed by PG&E, SDG&E, and SoCalGas.

SAFETY CONSIDERATIONS: This Resolution approves incentive awards to PG&E, SD&GE, and SoCalGas and thus is not expected to have an impact on public safety.

ESTIMATED COST: The total award for the three inventor-owned utilities (IOUs) is $28,542,303, with the following allocations:

- PG&E: $21,561,992 (82% electric, 18% gas split);
- SDG&E: $3,904,664 (80% electric, 20% gas split); and
- SoCalGas: $3,075,647 (100% gas).

By PG&E Advice Letter 3419-G/4291-E (U 39M) filed on September 30, 2013.
By SDG&E Advice Letter 2520-E/2228-G (U 902 M) filed on September 26, 2013.
By SoCalGas Advice Letter 4542-G (U 904 G) filed on September 24, 2013.

SUMMARY

This Resolution addresses Pacific Gas and Electric Company (PG&E) Advice Letter 3419-G/4291-E, San Diego Gas and Electric Company (SDG&E) Advice Letter 2520-E/2228-G, and Southern California Gas Company (SoCalGas) Advice Letter 4542 seeking approval of program year 2011 incentive awards in compliance with Ordering Paragraph 8 of D.12-12-032. This Resolution accepts PG&E, SDG&E, and SoCalGas' Advice Letters and approves the incentive awards, as calculated by the investor-owned utilities (IOUs).

BACKGROUND

The California Public Utilities Commission (CPUC) adopted a shareholder incentive mechanism for energy efficiency programs beginning with the 2006-08 portfolio to motivate IOU management to pursue energy efficiency as a core business strategy. However, significant controversy over the 2006-08 incentive mechanism caused the CPUC to reconsider the incentive mechanism structure.

The Commission opened a proceeding to consider reforms to the original mechanism, but had not completed its deliberations on the appropriate reforms as the 2010-12 cycle was drawing to a close. The Commission recognized that the mechanism reforms could not influence the IOUs' 2010-12 portfolio implementation activities, but found it reasonable to continue to disburse shareholder incentives for energy efficiency to send the proper investment signal to the market place and affirm the state's commitment to energy efficiency.[1] On December 20, 2012, the CPUC adopted decision D.12-12-032, which implements a simplified shareholder mechanism for the 2010-12 portfolio that consists of a management fee with a performance bonus based on each IOU's compliance with the Commission's ex ante review process.

D.12-12-032 set the management fee equal to 5% of audited annual utility programmatic expenditures, plus up to 1% for ex ante review performance, excluding evaluation, measurement, and verification costs. Ex ante review performance is assessed using a set of 11 metrics covering the following four categories:

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[1] D.12-12-032 at page 43.

- Category 1: IOUs' efforts to implement the Commission's ex ante review process within their organizations
- Category 2: Level of due diligence the IOUs applied to their ex ante activities
- Category 3: Progress toward ex ante activity that is more self-policing
- Category 4: Efforts to implement Commission adopted policy regarding the use of the Database for Energy Efficient Resources (DEER)

Each IOUs' score for ex ante process conformance was directly translated to the performance bonus (i.e., the score was equal to the proportion of the 1% performance bonus awarded to each IOU). In the Decision, the CPUC adopted the following scores to determine the performance bonus earnings rate for each IOU for the 2010-12 program cycle:

- PG&E: 68/100
- SDG&E: 31/100
- SoCalGas: 36/100

The IOUs' incentive award earnings rates for the 2010-12 program cycle are the combination of the performance scores and the management fee, and were adopted in D.12-12-032 as follows:

- PG&E: 5.68%
- SDG&E: 5.31%
- SoCalGas: 5.36%

Per D.12-12-032, the IOUs will rely on public versions of the CPUC Utility, Audit, Finance, and Compliance Branch (UAFCB) reports to determine the actual expenditures to calculate their respective incentive awards. Final UAFCB reports for PG&E, SDG&E, and SoCalGas were made public on September 19, 2013.[2] The service list for R.12-01-005 was notified of the availability of the UAFCB audits.

[2] Financial Compliance Audit Reports for Energy Efficiency (EE) Programs http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Reports/Financial+Compliance+Audit+Reports+for+EE+Programs.htm

D.12-12-032 directs PG&E, SDG&E, and SoCalGas to each file a Tier 3 Advice Letter seeking incentive awards for 2011program activities using the adopted earnings rates and their verified expenditure amounts.

NOTICE

Notice of PG&E AL 3419-G/4291-E (U 39M), SDG&E AL 2520-E/2228-G (U 902M), and SoCalGas AL 4542 (U 904 G) was made by publication in the Commission's Daily Calendar. PG&E, SDG&E, and SoCalGas state that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

No protests were filed in response to PG&E AL 3419-G/4291-E, SDG&E AL 2520-E/2228-G, or SoCalGas AL 4542.

DISCUSSION

Energy Division has reviewed the Advice Letters and finds the calculated incentive awards to be in compliance with the directives of D.12-12-032 and consistent with the results of the UAFCB reports, as explained below. As such, this resolution accepts the Advice Letters and approves the 2011 incentive awards for PG&E, SDG&E, and SoCalGas as they are calculated in their respective Advice Letters.

PG&E Advice Letter 3419-G/4291-E

PG&E requests $21,561,992 for the 2011 incentive award. This calculation is based upon the UAFCB final report,[3] which verified PG&E's actual 2011 energy efficiency expenditures. In the final report, UAFCB recommends that PG&E

[3] *Energy Efficiency Program (EE) Financial Compliance Examination Report of Pacific Gas and Electric Company (PG&E) for the Period January 1 through December 31, 2011*, dated September 19, 2013. Available online at: http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Reports/Financial+Compliance+Audit+Reports+for+EE+Programs.htm.

exclude the On-Bill Financing loan pool of $648,287 from its 2011 expenditures prior to calculating their incentive.[4] PG&E applied the recommendation and calculated the incentive as 5.68% of $379,612,543, which is equal to $21,561,992.

Per PG&E AL 3419-G/4291-E, PG&E will recover the 2011 incentive award from ratepayers by allocating the total award between its electric and gas balancing accounts in accordance with the electric and gas net benefit factor to allocate the 2010-12 Energy Efficiency portfolio expenditures, as follows:

Allocation[5]	**2011 Energy Efficiency Incentive Award**
Electric Balancing Account (82%)	$17,680,833
Gas Balancing Account (18%)	$3,881,159
Total	$21,561,992

SDG&E Advice Letter 2520-E/2228-G
SDG&E requests $3,904,664 for the 2011 incentive award. This calculation is based upon the UAFCB final report,[6] which verified SDG&E's actual 2011 energy efficiency expenditures. In the final report, UAFCB recommends that SDG&E exclude $514,316 from its 2011 expenditures prior to calculating their incentive because those costs were incurred in 2010.[7] Although SDG&E disagrees with this finding, the disallowance was applied and SDG&E calculated the incentive as 5.31% of $73,534,155, which is equal to $3,904,664.

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[4] Ibid at page 1.

[5] The electric and gas net benefit factor to allocate the 2010-12 Energy Efficiency portfolio expenditures was approved in PG&E Advice Letters 3065-G-A/3562-E-A and 3065-G-B/3562-E-B.

[6] *Energy Efficiency Program (EE) Financial Compliance Examination Report of San Diego Gas and Electric Company (SDG&E) for the Period January 1 through December 31, 2011*, dated September 19, 2013. Available online at: http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Reports/Financial+Compliance+Audit+Reports+for+EE+Programs.htm.

[7] Ibid at page 2.

Per SDG&E AL 2520-E/2228-G, SDG&E will recover the 2011 incentive award from ratepayers by allocating the total award to its electric and gas Rewards and Penalties Balancing Accounts (RPBA) in accordance with the authorized 2010-12 Energy Efficiency portfolio gas and electric budget split, as follows:

Allocation	**2011 Energy Efficiency Incentive Award**
Electric RPBA (80%)	$3,123,731
Gas RPBA (20%)	$780,933
Total	$3,904,664

<u>SoCalGas Advice Letter 4542</u>
SoCalGas requests $3,075,647 for the 2011 incentive award. This calculation is based upon the UAFCB final report,[8] which verified SoCalGas' actual 2011 energy efficiency expenditures. In its final report, UAFCB did not find any reported costs that SoCalGas should disallow prior to calculating the 2011 incentive award.[9] Consequently, SoCalGas calculated the incentive as 5.36% of $57,381,476, which is equal to $3,075,647.

Per SoCalGas AL 4542, SoCalGas will recover the 2011 incentive award from ratepayers by allocating the total award among its core and noncore classes of service in its gas transportation rates, as follows:

Allocation	**2011 Energy Efficiency Incentive Award**
Core Class of Service	$2.9M
Noncore Class of Service	$0.2M
Total	$3.1M

[8] *Energy Efficiency Program (EE) Financial Compliance Examination Report of Southern California Gas Company (SCG) for the Period January 1 through December 31, 2011*, dated September 19, 2013. Available online at: http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Reports/Financial+Compliance+Audit+Reports+for+EE+Programs.htm.

[9] Ibid at page 1.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. The PG&E, SDG&E, and SoCalGas Tier 3 Advice Letters requesting approval for program year 2011 Energy Efficiency incentive awards are consistent with the directives of D.12-12-032.
2. The incentive award calculations are based on the findings of the UAFCB final reports. PG&E and SDG&E applied UAFCB recommendations to remove certain funds from their 2011 expenditures for the purpose of incentive calculation. UAFCB did not recommend any disallowances for SoCalGas.
3. No protests were filed in response to PG&E AL 3419-G/4291-E, SDG&E AL 2520-E/2228-G, or SoCalGas AL 4542.
4. This Resolution approves the program year 2011 Energy Efficiency incentive awards.

THEREFORE IT IS ORDERED THAT:

1. The requests of the Pacific Gas and Electric Company, San Diego Gas and Electric Company, and Southern California Gas Company to receive program year 2011 Energy Efficiency incentive awards as requested in AL 3419-G/4291-E, AL 2520-E/2228-G, and Al 4542 are approved.
2. Pacific Gas and Electric Company is authorized to record its 2011 incentive award of $21,561,992 in its electric and gas balancing accounts according to the electric and gas net benefit factor to allocate 2010-12 Energy Efficiency portfolio expenditures (82% electric, 18% gas) for recovery in its customer rates.
3. San Diego Gas and Electric Company is authorized to record its 2011 incentive award of $3,904,664 in its electric and gas Rewards and Penalties Balancing Accounts in accordance with the authorized 2010-12 Energy Efficiency portfolio gas and electric budget split (80% electric, 20% gas) for recovery in its customer rates.

4. Southern California Gas Company is authorized to record its 2011 incentive award of $3,075,647 in its Rewards and Penalties Balancing Account for recovery in its customer rates.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on December 5, 2013; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director